



The Pakistan Credit Rating Agency Limited

## Rating Report

### Zaver Petroleum Corporation (Pvt.) Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
21-Dec-2023	A-	A2	Stable	Maintain	-
21-Dec-2022	A-	A2	Stable	Maintain	-
22-Dec-2021	A-	A2	Stable	Maintain	-
30-Dec-2020	A-	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Pakistan's E&P segment, including 10 domestic and 14 foreign companies, operates with 24 rigs actively deployed for drilling with ~124 active exploration licenses as of FY22 by the Ministry of Energy and Petroleum. There is an average of ~3 wells per 1,000 sq. km for exploratory acreage. Currently, ~1,114 exploration wells and ~1,484 appraisal/development well drilled as of Dec-21. Oil production and Gas production in Pakistan stood at 81,496bbl per day and 3,403mmcf per day, respectively. Zaver Petroleum Corporation Limited ('Zaver' or 'the Company') drives its strength from its Group companies that includes Orient Petroleum Inc. (OPI), Orient Petroleum Pty Limited (OPPL), OPI Gas (Pvt.) Limited and Hashwani Hotels Limited (HHL) which includes the chain of Marriott hotels in Pakistan. Zaver is engaged in the exploration, development, and production of oil and natural gas reserves. Currently, the Company operates five exploration licenses and three development and production leases in Pakistan i.e., Maher, Sakhi Sarwar, Marwat, Harnai South, & Sari South as exploration leases and, Shakardara, Mehar and Sofia as Development and Production leases. Increased oil and gas prices, led the Company's topline to growth by ~14%; while volumes remains low. On the operational front, Zaver production reports identified crude oil, gas & LPG production of 103,104bbl; 633,404mmbtu and 497MT, respectively, from Jul-22 to Jun-23. Overall, stable growth was observed in the Company's business margins. However, higher interest costs along with exchange loss kept net margins on the lower level. The Company's risk-adjusted recoverable reserves, both from its production and development along with exploration assets provides strength. Going forward, an increase in volumes may lead to better profitability. However, executional strategies and expected synergies remain crucial. On the financial risk front, the Company's capital structure is considered robust, with low leveraging. Coverages remain strong, albeit with a less favorable working capital cycle. Going forward, financial discipline along with better governance framework remains pivotal for the ratings.

The ratings are dependent on the sustained relative positioning of the Company. Volatility in topline and profitability remains key concern. However, financial discipline along with Sponsor's support are imperative to ratings, while maintaining the coverage ratios.

#### Disclosure

<b>Name of Rated Entity</b>	Zaver Petroleum Corporation (Pvt.) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jul-23),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology   Rating Modifiers(Apr-23)
<b>Related Research</b>	Sector Study   POL Distribution - OMCs & Dealers(Nov-23)
<b>Rating Analysts</b>	Faiqa Qamar   faiqa.qamar@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Zaver Petroleum Corporation (Pvt.) Limited ('the Company' or 'Zaver Petroleum') was incorporated as a private limited company in 1991.

**Background** Zaver Petroleum is an oil and gas E&P company engaged in exploration, development and production of hydrocarbon reserves, only in Pakistan. The Company remains focused on building itself as a significant and independent oil and gas company through a balanced portfolio of exploratory along with development assets. The Company is part of the Group which includes Orient Petroleum Inc., Orient Petroleum Pty Ltd and OPI Gas (Pvt) Ltd. The Group also operates in the hospitality business which includes chain of Marriott hotels.

**Operations** Zaver Petroleum is engaged in the exploration, development, production and sale of crude oil, natural gas and liquefied petroleum gas (LPG). The Company operates five exploration licenses and three development and production leases in Pakistan i.e., Maher, Sakhi Sarwar, Marwat, Harnai South, & Sari South as exploration leases and, Shakardara, Mehar and Sofia as Development and Production leases.

## Ownership

**Ownership Structure** The majority ownership of the Company, constituting ~23.3% is held by Hashoo Holding (Pvt) Limited, followed by Mr. Hassan Ali Hashwani (~19.9%) Bagh e Landhi Properties (~14.3%), Hashoo (Pvt) Limited (~11.3%), Elite Properties (~11.3%), Gulf Properties (~5.9%) and others (~14%).

**Stability** As major ownership resides with the sponsoring Group, thus, ownership is deemed stable.

**Business Acumen** The Group holds stakes in multiple business segments like hospitality, oil & gas exploration and production. The business acumen of the Sponsors - Mr. Hassan Ai Hashwani - and the ability to channel and execute the defined business strategies remain incomparable.

**Financial Strength** The Group hold considerable financial strength to support the Company, if needs be.

## Governance

**Board Structure** The Company's Board comprises one Non-Executive and two Executive Directors.

**Members' Profile** Mr. Sadruddin Hashwani, the founder and Chairman of the Group, provides guidance with over 43 years of experience. All members of BoD have substantial experience in the relevant domain.

**Board Effectiveness** The Board is actively involved in the supervision and oversight of management to make informed decisions, leading to the entity achieving its objectives, and supported by the Technical Advisory Committee, comprising Executive Directors. The Board conducts regular meetings with majority attendance to discuss various aspects of the Company.

**Financial Transparency** External Auditors of the Company, M/s. Grant Thornton Anjum Rahman, has expressed an unqualified opinion on the financial statements for Jun-22.

## Management

**Organizational Structure** The Company's operations are bifurcated into Reservoir Engineering, Exploration, Surface Operations, Drilling, Petroleum Engineering, Finance, Admin, MIS, HR, Internal Audit and Procurement & Supply Chain. All Departmental heads report to the CEO, who then reports to the BoD.

**Management Team** Mr. Kamran Ahmed, the CEO, has more than 3 decades of experience in investment banking and the oil & gas industry. He is also the CEO of Orient Petroleum, a Group company and an integral part of the Group for two decades. He leads a team of seasoned professionals.

**Effectiveness** Zaver Petroleum is managed through a joint service agreement with Orient Petroleum. The Company does not have any management committee in place.

**MIS** Oracle ERP has been implemented to provide real-time end-to-end integrated solution for all operations including financial, purchasing, inventory, HRMS, allocation, payroll and approval management system. The Company has a dedicated team of professionals for in-house development, customization and maintenance of Oracle applications for Oil & Gas specific requirements.

**Control Environment** The Company has placed an effective inhouse internal audit department forming SoPs and ensuring their compliance. The department directly reports to the Board

## Business Risk

**Industry Dynamics** In Pakistan, 10 domestic and 14 Foreign companies are operating with 24 rigs actively deployed for drilling, ~124 active exploration licenses as of FY22. Pakistan has an average of ~3 wells per 1,000 sq. km of exploratory acreage. Currently, ~1,114 exploration wells and 1,484 appraisal/development well drilled as of Dec-21. Oil production and Gas production in Pakistan stood at 81,496 Barrels of oil per day and 3,403 million cubic feet per day respectively. Exploration and production of hydrocarbons require high levels of capital expenditures and is a high-risk venture.

**Relative Position** Industry's market share is dominated by state-owned Oil and Gas Development Company Limited (OGDCL). The other large-tier competitors comprise Pakistan Petroleum Limited, Mari Petroleum Limited and Pakistan Oil Field etc. Mid-tier companies include MOL and Orient Petroleum Inc. Zaver Petroleum is positioned as a small-tier entity.

**Revenues** The revenue mix remained tilted towards crude oil, as it contributed ~77% to the mix, followed by Gas at ~20%, with LPG contributing only ~3% to the mix. During FY23, Zaver Petroleum observed ~14.6% growth in its topline reported at ~PKR 2,990mln (FY22: ~PKR 2,610mln) attributable to uptake in volumetric sales coupled with record high prices.

**Margins** During FY23, gross margin of the Company showed slight growth (FY23:~66%, FY22: ~65%) supported by an increase in oil prices in the international market. Operating margins reaped benefit of controlled cost and posted growth (FY23: ~ 66%, FY22: ~61%). While, net profit margins posted a dip (FY23: ~32%, FY21: 38%) due to an increase in exchange loss incurred during FY23.

**Sustainability** Zaver Petroleum holds 05 Exploration Licenses, along with 03 Development and Production Leases in Pakistan. The management is addressing security concerns to resume operations in the Marwat block, aiming to enhance performance.

## Financial Risk

**Working Capital** Zaver Petroleum's net working capital days stretched to -163days (FY22: -135days) due to elevated trade payable days to 242days (FY22: 207days). Zaver Petroleum needs to build a positive borrowing cushion at all times.

**Coverages** The Company's cash flows remain a function of its profitability. Internal cash is principally generated from hydrocarbon sales. FCFO witnessed growth of ~7.8% reported at PKR~2,082mln in FY23 (FY22: PKR~1,932mln). Better profitability resulted in better Interest coverage ratio which stands at 16x in FY23 (FY22: 16x).

**Capitalization** Zaver Petroleum has maintained low-leverage structure (~8%). As of FY23, the total debt of Zaver stands at ~PKR 592mln constituting of long-term debt ~PKR 250mln and STB of PKR~342mln. Equity of the Company has strengthened to ~PKR 6.829mln (FY22: ~PKR 5,879mln).



Zaver Petroleum Corporation (Pvt) Ltd Oil Exploration and Production	Jun-23 12M	Jun-22 12M	Jun-21 12M	Jun-20 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	1,615	2,067	1,247	1,339
2 Investments	-	-	1	3
3 Related Party Exposure	8,145	6,499	4,729	4,113
4 Current Assets	1,384	1,420	1,067	763
a Inventories	2	3	2	5
b Trade Receivables	626	652	373	331
5 Total Assets	11,144	9,986	7,044	6,218
6 Current Liabilities	3,027	2,776	947	801
a Trade Payables	1,733	2,226	738	685
7 Borrowings	592	934	1,150	650
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	697	397	68	63
10 Net Assets	6,828	5,879	4,879	4,704
11 Shareholders' Equity	6,829	5,879	4,879	4,704
<b>B INCOME STATEMENT</b>				
1 Sales	2,990	2,610	1,481	1,223
a Cost of Good Sold	(1,006)	(925)	(1,140)	(1,141)
2 Gross Profit	1,984	1,685	342	82
a Operating Expenses	(30)	(97)	(96)	(79)
3 Operating Profit	1,954	1,588	245	3
a Non Operating Income or (Expense)	(306)	(122)	29	(65)
4 Profit or (Loss) before Interest and Tax	1,648	1,466	274	(61)
a Total Finance Cost	(149)	(129)	(79)	(55)
b Taxation	(549)	(337)	(20)	34
6 Net Income Or (Loss)	949	1,000	175	(82)
<b>C CASH FLOW STATEMENT</b>				
a Free Cash Flows from Operations (FCFO)	2,082	1,932	587	172
b Net Cash from Operating Activities before Working Capital Changes	1,941	1,816	486	181
c Changes in Working Capital	(1,995)	(184)	(575)	(146)
1 Net Cash provided by Operating Activities	(54)	1,632	(89)	34
2 Net Cash (Used in) or Available From Investing Activities	496	(1,506)	(129)	(348)
3 Net Cash (Used in) or Available From Financing Activities	(342)	(217)	500	450
4 Net Cash generated or (Used) during the period	100	(91)	282	136
<b>D RATIO ANALYSIS</b>				
1 Performance				
a Sales Growth (for the period)	14.6%	76.2%	21.2%	5.7%
b Gross Profit Margin	66.3%	64.6%	23.1%	6.7%
c Net Profit Margin	31.8%	38.3%	11.8%	-6.7%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	2.9%	67.0%	0.8%	2.1%
e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity) ]	14.9%	18.6%	3.7%	-1.6%
2 Working Capital Management				
a Gross Working Capital (Average Days)	78	72	88	96
b Net Working Capital (Average Days)	-163	-135	-88	-84
c Current Ratio (Current Assets / Current Liabilities)	0.5	0.5	1.1	1.0
3 Coverages				
a EBITDA / Finance Cost	16.0	16.1	10.1	8.3
b FCFO / Finance Cost+CMLTB+Excess STB	1.0	1.1	2.1	2.4
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.1	1.3	2.2	5.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	8.0%	13.7%	19.1%	12.1%
b Interest or Markup Payable (Days)	17.1	21.7	20.7	394.0
c Entity Average Borrowing Rate	18.1%	11.5%	7.1%	8.7%

### Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	<b>High credit quality.</b> Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	
BB	<b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB-	
B+	
B	<b>High credit risk.</b> A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	
CC	<b>Very high credit risk.</b> Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



\*The correlation shown is indicative and, in certain cases, may not hold.

**Outlook (Stable, Positive, Negative, Developing)** Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

**Rating Watch** Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

**Suspension** It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

**Withdrawn** A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s):  
 a) Broker Entity Rating  
 b) Corporate Rating  
 c) Debt Instrument Rating  
 d) Financial Institution Rating  
 e) Holding Company Rating  
 f) Independent Power Producer Rating  
 g) Microfinance Institution Rating  
 h) Non-Banking Finance Companies Rating

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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

### **2) Conflict of Interest**

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
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- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
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- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 17-(d)

### **Probability of Default**

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)

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